

Time to engage Europe:

Opportunities are many, but on trade and tax issues our negotiators have been twiddling their thumbs

Jack Mintz

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Upon returning to Canada from Brussels, my belly still filled with gaufres and frites, I picked up the June 8 Financial Post for a feast of low-cal business news. You wouldn't think that much would be happening in cross-Atlantic relations, given the scant attention Canadian and European governments pay to these issues. Right before my eyes, however, was story upon story about Canadian-EU trade and investment relations.

Henri-Paul Rousseau is transforming the Caisse de dépôt et placement du Québec into a global investor, with holdings in Germany, France and Spain, as well as China and Brazil. Royal Dutch Shell is working with a Canadian company to derive ethanol from cellulose waste materials. Falconbridge is selling its Norwegian nickel company to LionOre Mining International to satisfy regulators so it can complete its merger with Inco--and forestall a competing bid from European firm Xstrata. Bombardier is bidding on a 370-car order in France, and the continuing Mittal and Arcelor fight will have ramifications for Dofasco in Canada.

Need I say more? Canada's outbound and inbound investment stocks with EU states in 2004-05 were valued at \$197 billion) with trade flows equal to \$78 billion. Canada is the EU's third-largest partner when it comes to investment, surpassed by only the United States and Switzerland. Even though China sells or buys about four times more goods and services to and from EU states than Canada does, our investment relationship with the EU is more than six times greater than China's.

Now, don't get me wrong. I am not a believer in Trudeau's Third Way, that Canada should lessen its dependence on the United States by focusing on trade and investment with other countries. However, I am a staunch believer in the gains from better trade and investment with all countries, letting our businesses determine for economic reasons where best to do business.

Given the exceptional investment relationship, you would think Canadian and European governments would be deeply engaged in discussions to reduce regulatory and tax barriers that impede trade and the mobility of capital across the Atlantic. Canada and the EU did give the relationship a boost with the March 18, 2004, framework to develop a Trade and Investment Enhancement Agreement--a mouthful of words that means something less than free trade. Since then, negotiations have been moving forward about as quickly as an oil tanker in the North Saskatchewan River. Some have taken place in the past year, but are now "paused" to await the outcome of the likely soon-to-fail Doha round at the World Trade Organization. Even though it is clear Canada-EU discussions could at least focus on those issues going beyond or unlikely to be covered by WTO negotiations, Canadian and European negotiators have decided it would be better to twiddle their thumbs than to move to a mutual recognition of regulatory regimes for goods and services.

In part, that is the fault of the business community. Quite rightly concerned by deteriorating governmental relationships with the United States in the past few years and mesmerized by growth in Asia, our business leaders have voiced insufficient concern about Canada-EU relations. This neglect is harmful to Canada's growth prospects, since the U.S. is not sitting back when it comes to encouraging trade and investment.

A further problem is the slight focus on bilateral tax treaties with EU member states. The U.S. government has been updating its treaties, negotiating the elimination of withholding taxes on dividends and interest with several EU countries, as well as providing a better treatment of European limited partnership funds. So what about Canada? Nada. Many of our treaties are decades old, with withholding tax regimes that reflect the mentality of a Third World capital-importing country. The U.S. is aggressive in its negotiations, and we are being outbid.

Canada already has a significant relationship with the EU. There is a lot of EU money that could be invested here to grow our economy; there is a lot for us to gain from investments in Europe. It is time to speed up that oil tanker.



Jack Mintz is president and CEO of the C.D. Howe Institute, and Deloitte & Touche LLP professor of taxation at the Joseph L. Rotman School of Management at the University of Toronto. His column for Canadian Business Online appears monthly.